Slovak Republic

Investor Presentation

March 2011

Agenda

1. **Slovak Republic at a Glance**
2. Low Indebtedness and Solid Macro Fundamentals
3. Public Finance Consolidation Strategy
4. Prudent Debt Management and Funding Strategy

Slovak Republic at a Glance

Territory:	49,035 km²
Population:	5.4 million
GDP per capita[1]:	73% of EU-27
Credit ratings:	A1 / A+ / A+ (stable outlook)
Capital:	Bratislava

1989	1992	1993	2000	2003	2004	2005	2007	2009
End of Communist regime	WTO membership	SlovakRepublic founded	OECD membership	EU accession referendum	NATO and EU membership	ERM-2 entry	Schengen area membership	EUR adoption

Note:[1] In Purchasing Power Standard (PPS) in 2009. Nominal GDP per capita: EUR 11,700 in 2009, Source: Eurostat

CEE Convergence with Eurozone Creditworthiness

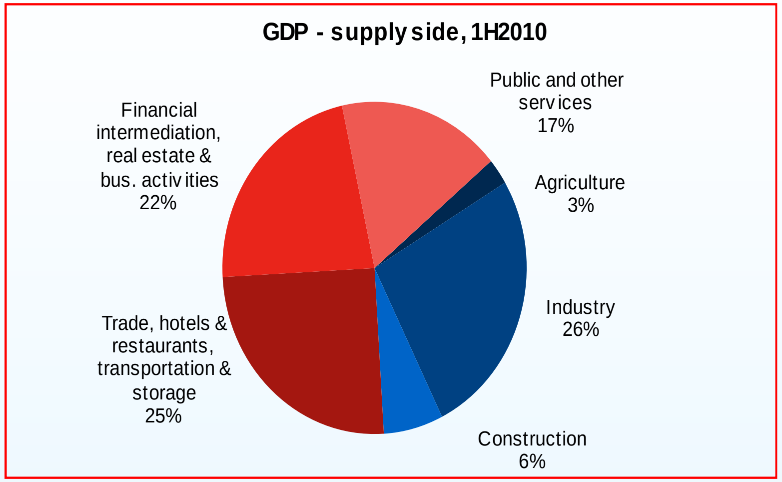
Medium-term convergence story	• The GDP growth reached 5.2% p.a. in 2002-09, highest in the EU • Slovakia outperformed Eurozone and CEE peers in 2002-09 • The convergence story should continue in the future along with the transfer of technology and know-how and institutional improvements
Eurozone member	• Slovakia adopted euro in January 2009 • Only CEE country with membership in all major international organisations • Euro adoption shields Slovakia from balance-of-payments crisis • Negligible share of foreign-currency loans (3.0% of total loans as of July 2010) • Access to ECB's liquidity, a member of EFSF fund • Higher attractiveness for foreign direct investments (WB's Doing Business survey)
Low overall indebtedness	• One of the lowest public and private debt level in the EU at 35.7% of GDP (well below the Maastricht threshold) and 47.7% of GDP, respectively in 2009 • One of the lowest Loan/Deposit ratio at 86% in the banking sector inside EU
Strong ratings with stable outlook	• Second-best ratings in the CEE (only behind Slovenia) • A+ by S&P, stable outlook, affirmed on 16 December 2009 • A1 by Moody's, stable outlook, changed outlook on 27 March 2009 • A+ by Fitch, stable outlook, affirmed on 18 May 2010

Agenda

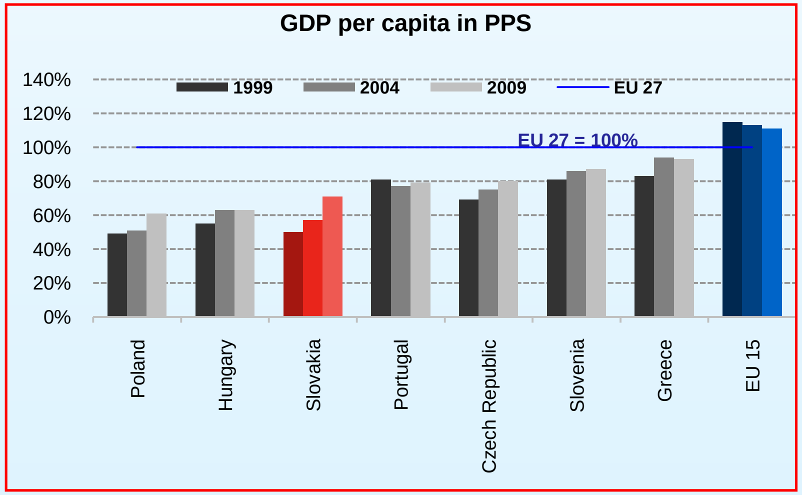
1. Slovak Republic at a Glance
2. **Low Indebtedness and Solid Macro Fundamentals**
3. Public Finance Consolidation Strategy
4. Prudent Debt Management and Funding Strategy

Quickly Converging Economy

- **Exceptional GDP growth in recent years**
  - Real GDP increased by 43% in 2002-09 (5.2% p.a.), compared to 7% (1.0% p.a.) in the Eurozone
  - Slovak GDP growth was the fastest in the EU during this period
  - Supported by reforms and improvement of business environment
  - GDP per capita at 73% of EU-27 GDP in PPS terms in 2009
- **Integrated economy**
  - Export-oriented economy (65% of value added in services, 26% in industry)
  - Auto and electronics clusters
- **Convergence story should continue**
  - Low labour costs should give some protection for Slovakia's cyclical sectors as the production adjustment should happen in more expensive countries
  - Technological gap has been closing
  - Public investment expansion into infrastructure (highways)



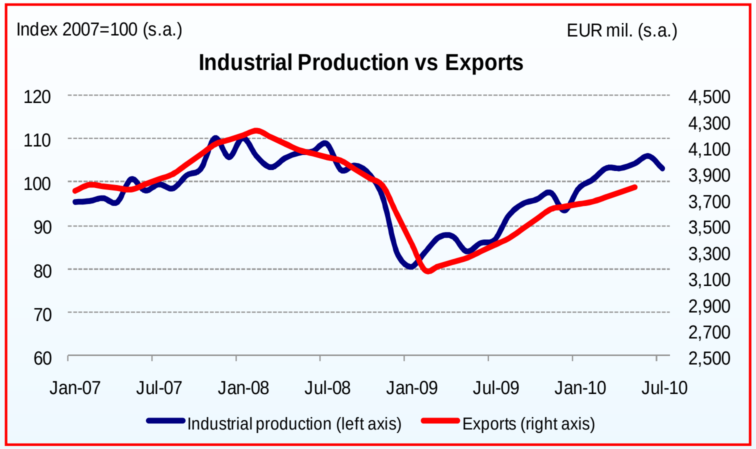
Source: Slovak Statistical Office, April 2010



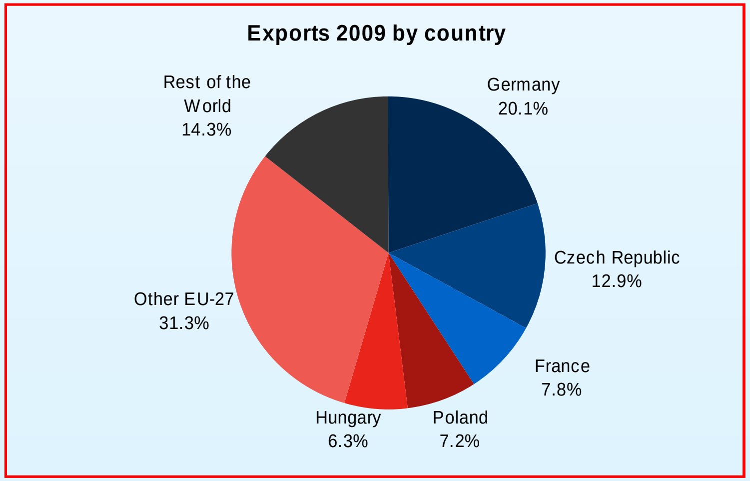
Source: Eurostat, April 2010

Export Positioned for Recovery

- **Fall in foreign demand caused recession in Slovakia last year**
  - Spillover to drop in investments and domestic demand
- **Economy reached bottom in 1Q09, grew in the following quarters**
  - After the fall in 1Q09, the GDP grew by a strong 1% q/q on average in 2009-1H2010
  - Significant bounce in industrial output in 2H09
  - Launch of new investments in 2009-10 (Volkswagen, AU Optronics, KIA Motors)
  - Finance ministry expects 4.0% y/y growth in 2010, 3.3% y/y in 2011 due to the substantial fiscal tightening
  - Unemployment rate increased to 14% in 2010 but still remains well below average of the last decade
- **Export and Germany-oriented economy**
  - Small and open economy, focused at the EU
  - Exports and imports made up 140% of GDP
  - Germany is the biggest market for Slovak exports (20%), followed by the Czech Republic (13%), of which Germany is the biggest trading partner



Source: Slovak Statistical Office, Eurostat, September 2010

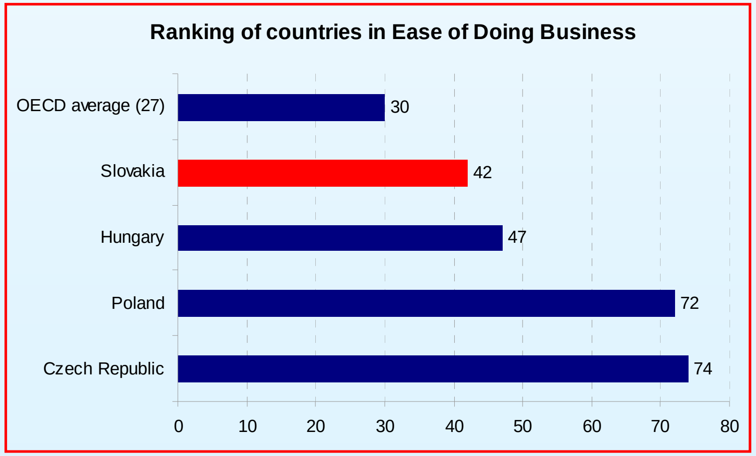


Source: Slovak Statistical Office, April 2010

Competitive Business and Taxation Environment

- **Competitive tax regime**
  - Flat and low corporate and personal income tax rate at 19%, no taxation of dividends
  - Flat VAT rate at 20% (majority of goods)
- **Low labour costs, high productivity in manufacturing**
  - Slovak labour costs in manufacturing still very low at 22% of German level
  - Highly skilled labour workforce (secondary education above EU average)
  - Cluster infrastructure for autos and electronics
- **Improving business conditions bear fruits**
  - Business-friendly environment ranked Slovakia highest within CE-4 countries in World Bank's Doing Business 2010

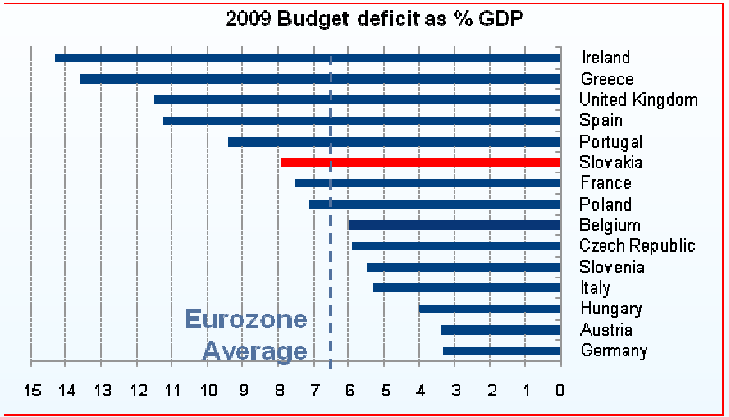
Source: Eurostat, September 2010



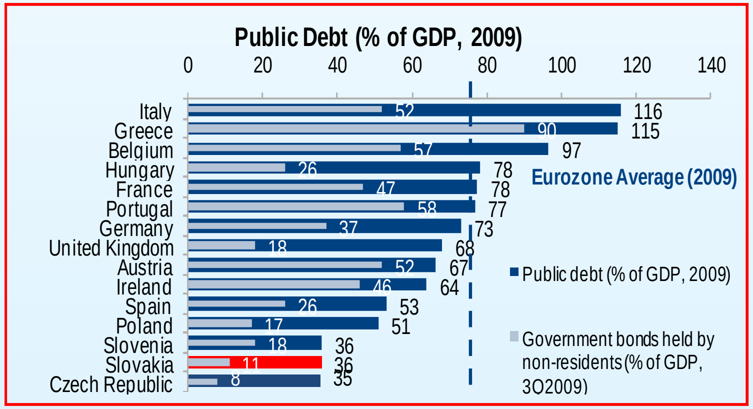
Source: World Bank, September 2010

Low Indebtedness and Fiscal Deficit Consolidation

- **Low indebtedness in EU standards**
  - Public debt at 35.7% of GDP in 2009, well below Maastricht threshold
  - Second-best ratings among CEE countries (only behind Slovenia)
- **Deficit increased due to recession but consolidation is on track**
  - 2009 government deficit at 7.9% of GDP and estimate (Ministry of Finance) for 2010 at 7.8% of GDP
  - 2011 budget foresees consolidation to 4.9% of GDP with a plan to get fiscal deficit to below 3% of GDP by 2013
- **Share of foreign bondholders**
  - Non-resident share at only approx. 30% (as of 2009)
  - No impact of currency fluctuations, as 99.6% of outstanding public debt is euro-denominated



Source: AMECO, April 2010



Source: World Bank, Eurostat, ARDAL

Why is Slovakia Less Vulnerable to the Global Crisis?

Slovakia has a low debt-to-GDP ratio. Its trend is supported by solid GDP growth potential and a low risk of banking contingent liabilities. The symptoms of vulnerability to the global credit crisis are thus not present:

Crisis symptom # 1: High debt levels

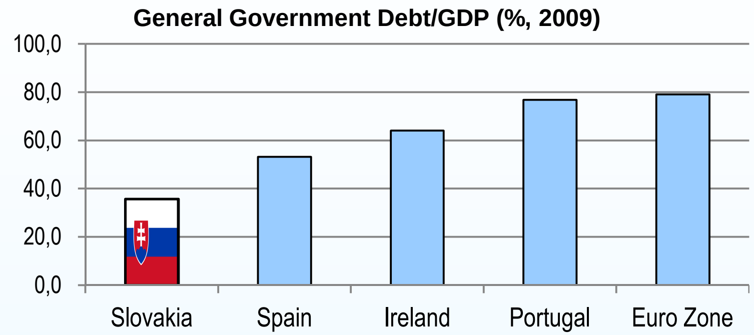
- ✓ SLOVAKIA´s debt is at a low 35.7%, half the EU average. The debt is low even when taking into account its state of development. Also private debt is one of the smallest in EU.

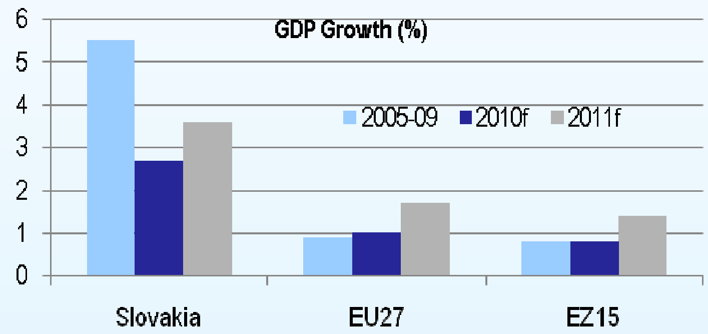
Crisis symptom # 2: Poor growth prospects

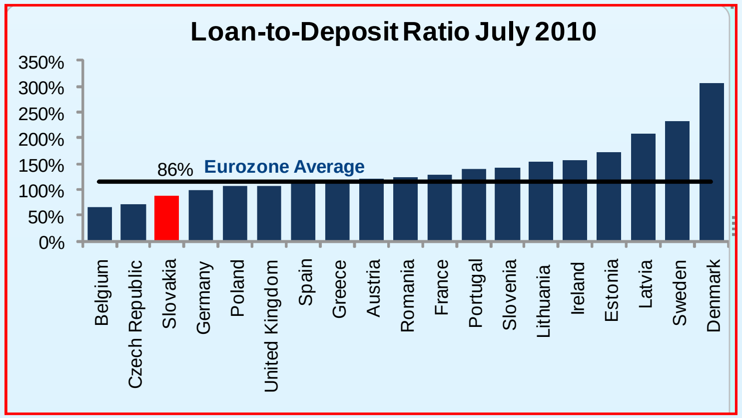
- ✓ SLOVAKIA´s record of structural reforms have increased competitiveness and GDP growth potential to well over twice the EU

Crisis symptom # 3: Costly bank bailouts

- ✓ SLOVAKIA´s debt already includes a bank bailout 10 years ago, banking sector L/D ratio is one of the smallest in EU





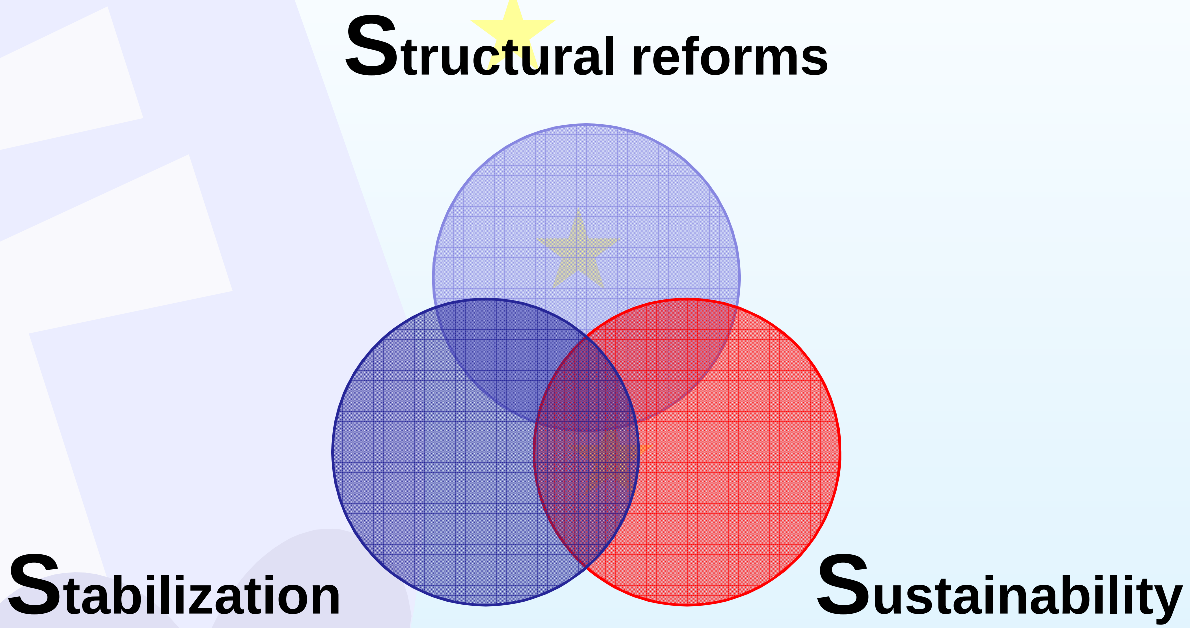


Sources: Eurostat and ECB

Agenda

1. Slovak Republic at a Glance
2. Low Indebtedness and Solid Macro Fundamentals
3. **Public Finance Consolidation Strategy**
4. Prudent Debt Management and Funding Strategy

„3S“ Strategy

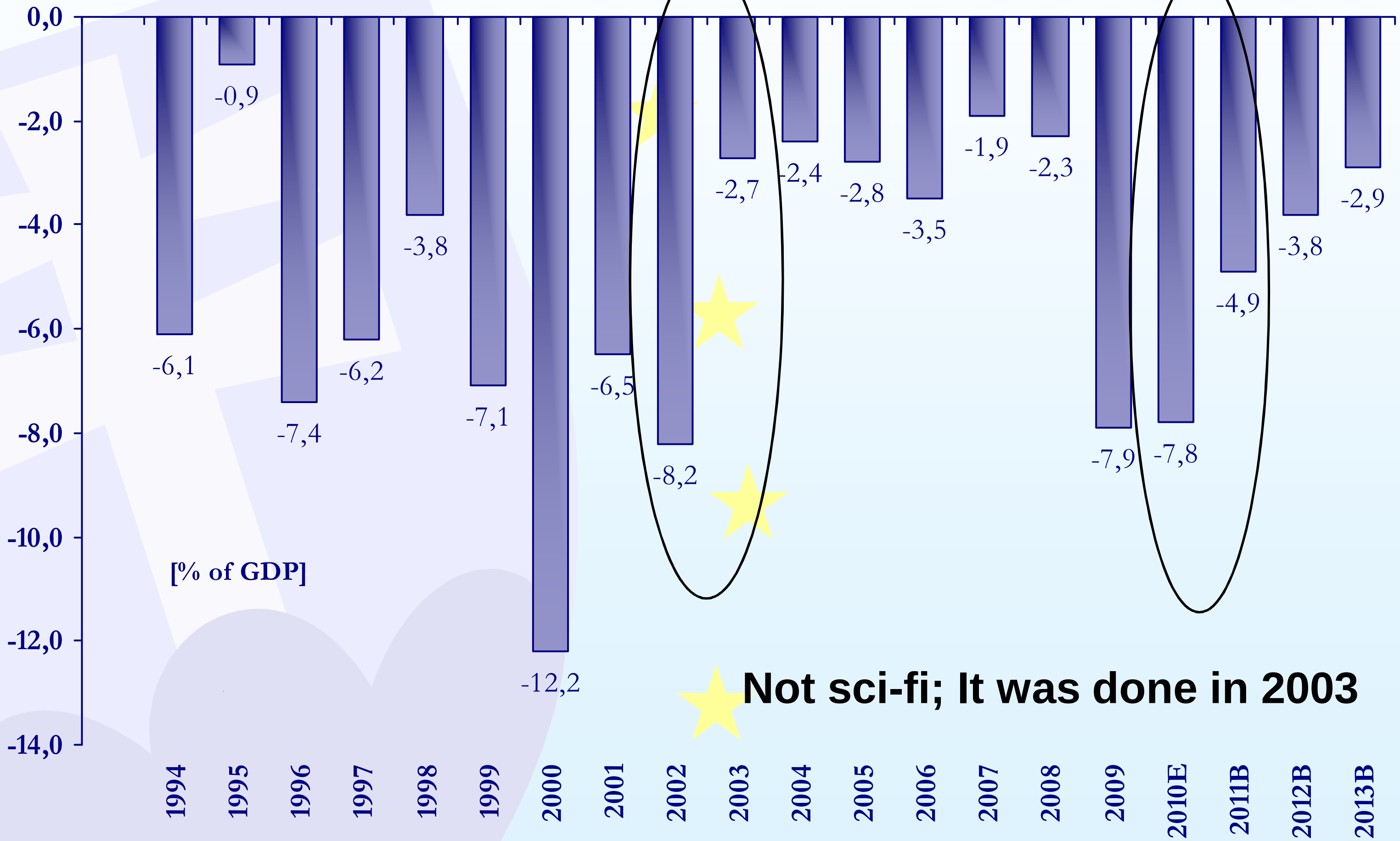


Stabilization (1)

Main objective:

to cut the deficit of general government below 3% of GDP in 2013; to improve credibility at financial markets

Stabilization (2)



Not sci-fi; It was done in 2003

Stabilization (3)

- Baseline (no-policy) scenario for 2011 is 7.4% of GDP – deficit target is 4.9% of GDP
- What is in the package?
  - indirect taxes (excise taxes, VAT)
  - taxes and SSC (base broadening)
  - expenditure cuts (mainly public wages and consumption – 10% benchmark)
  - increased use of EU funds
- IMF considers the size and the composition of the package as „appropriate“

Stabilization (4)

- BUDGET 2011 (preliminary estimates)

	Estimate2010	No Policy 2011	Budget 2011	(3) - (1)	(3) - (2)
TOTAL REVENUES	**31,8%**	32,2%	33,2%	1,4	1,0
Tax revenues (incl. sanctions)	**15,3%**	15,4%	16,0%	0,7	0,6
Social contributions (incl. sanctions)	**12,0%**	11,9%	12,0%	0,0	0,1
Non-tax revenues	**3,0%**	2,8%	3,1%	0,1	0,3
Grants and transfers	**1,5%**	2,1%	2,1%	0,7	0,0
TOTAL EXPENDITURES	**39,5%**	39,6%	38,1%	-1,4	-1,5
Current expenditure	**35,4%**	35,6%	34,4%	-0,9	-1,2
Compensation of employees	**6,9%**	6,7%	6,2%	-0,7	-0,5
Goods and other services	**9,7%**	9,8%	9,3%	-0,4	-0,4
Subsidies and transfers	**17,3%**	17,2%	17,0%	-0,2	-0,2
Interest	**1,5%**	2,0%	1,8%	0,4	-0,1
Capital expenditures	**4,2%**	4,0%	3,7%	-0,5	-0,3
Capital assets	**1,6%**	1,1%	1,2%	-0,4	0,1
Capital transfers	**2,6%**	2,9%	2,5%	-0,1	-0,4
General Government balance	**-7,8%**	-7,4%	-4,9%	2,9	2,5

Structural Reforms (1)

Main objective:

to increase the growth potential of the Slovak economy and to counteract the possible negative effects of fiscal consolidation

Structural Reforms (2)

- 6 medium – term priorities
  - SSC reform
  - Education reform
  - Improvements in business environment
  - Pension reform
  - Healthcare reform
  - More targeted and motivating social benefits system

Sustainability (1)

Main objectives:

to prepare the budget for the ageing of the population; to introduce a „commitment device“ in public finances

Sustainability (2)

- Increasing expenditure effectiveness
  - Transfer of some of the activities to the private sector
  - Stabilization of state companies (railway, Slovak Radio and TV, etc.)
  - Privatization (Cargo, airports, etc.)
  - Register of in tangible public assets
  - Social system of armed forces
  - Reconsidering subsidies
  - Higher property taxes
  - Fight against tax evasion (mainly VAT, excise taxes)

Sustainability (3)

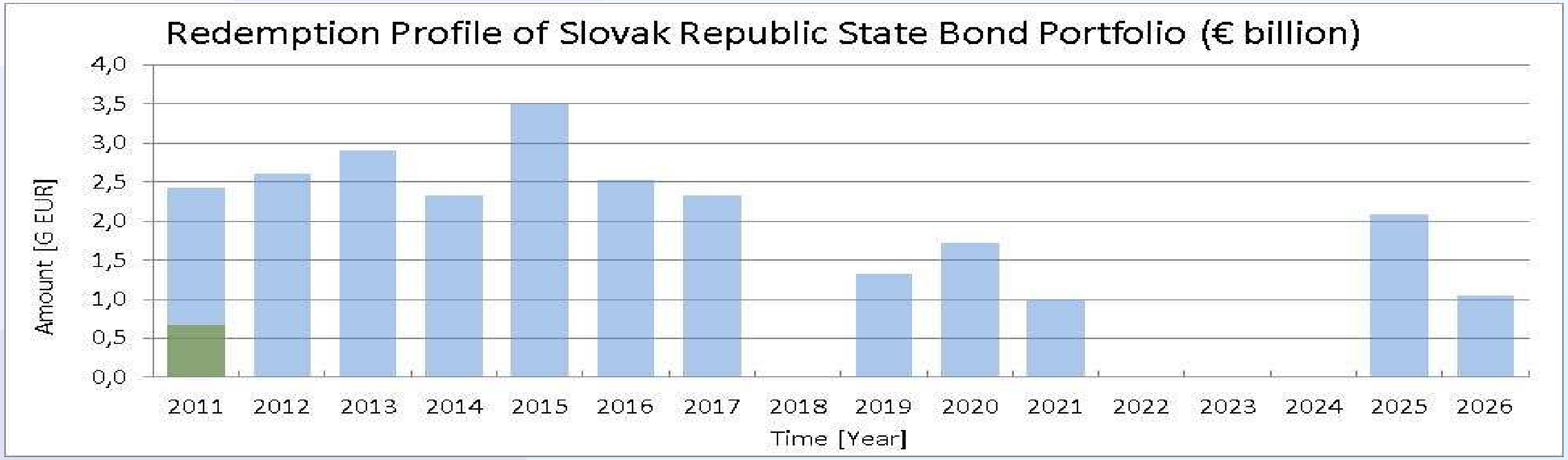
- Fiscal Responsibility Act
  - Constitutional debt limit; possible below the Maastricht threshold
  - Nominal 3-year expenditure ceiling
  - New rules for municipalities (golden-type rule)
  - Pre - defined data dissemination standard
  - Council for Fiscal Responsibility

Agenda

1. Slovak Republic at a Glance
2. Low Indebtedness and Solid Macro Fundamentals
3. Public Finance Consolidation Strategy
4. **Prudent Debt Management and Funding Strategy**

Prudent Debt Management and Funding Strategy

- Funding conducted in line with Government Debt Management Strategy
- New Debt Management Strategy (2011 – 2014) was approved by Government
- 2011 gross borrowing amount up to EUR 8.5 billion vs. 9.4 billion in 2010
- Restrictive policy on provisions of new state guarantees
- Well diversified and balanced structure of funding sources: 95.7% of the general government debt in the form of the government securities
- 99.7 % of the government debt denominated in EUR
- Balanced redemption profile, minimising re-financing and liquidity risks

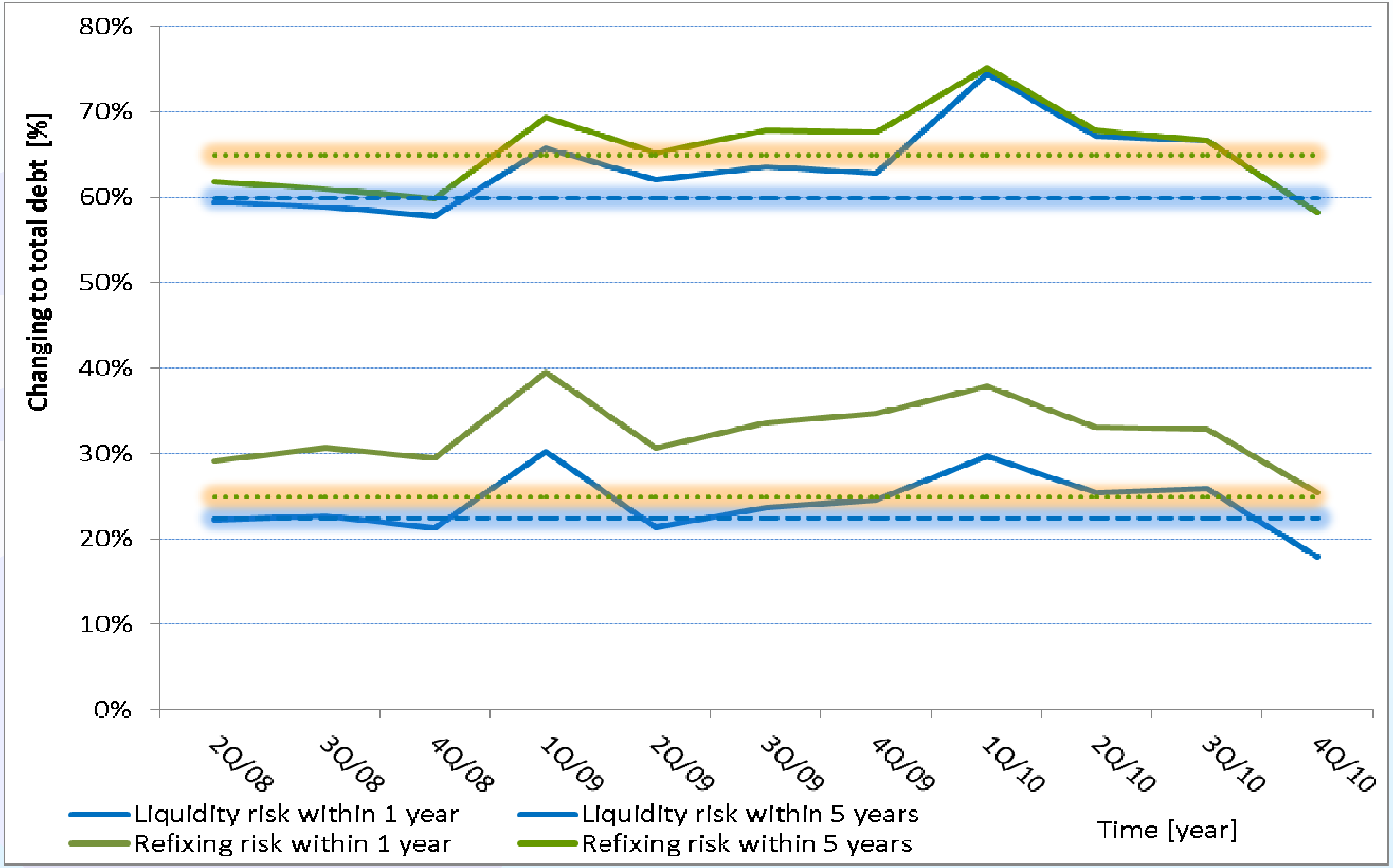


Source: ARDAL, March 2011

Active Debt and Liquidity Management

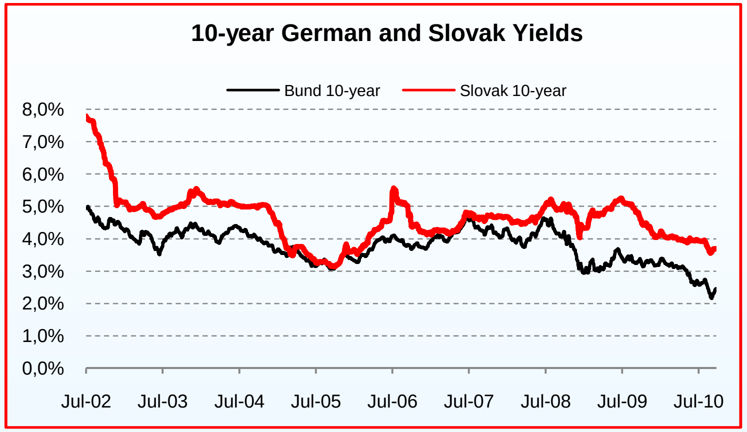
- Active management of the government debt, which represents 96.5 % of the public debt as of end of 2010
- Reduce number of issues and buyback or exchange maturing government bonds
- Benchmark bond opened via syndication increased via auctions up-to the maximal size (EUR 3 bln.) to ensure sufficient liquidity
- Transparent communication with the market and implementation of the primary dealers system
- Reduction of the non-tradable debt (to 4.3%) of the general government debt
- Keep the cumulative debt maturing within 1 year and within 5 year at 25 % and 65 % of the total debt respectively
- Average duration of the debt is about 4.75 years
- Average time to maturity of the debt portfolio – close to 5.7 years
- The lowest relative costs of funding in history: 3.3 % p. a.

Benchmark Criteria Development

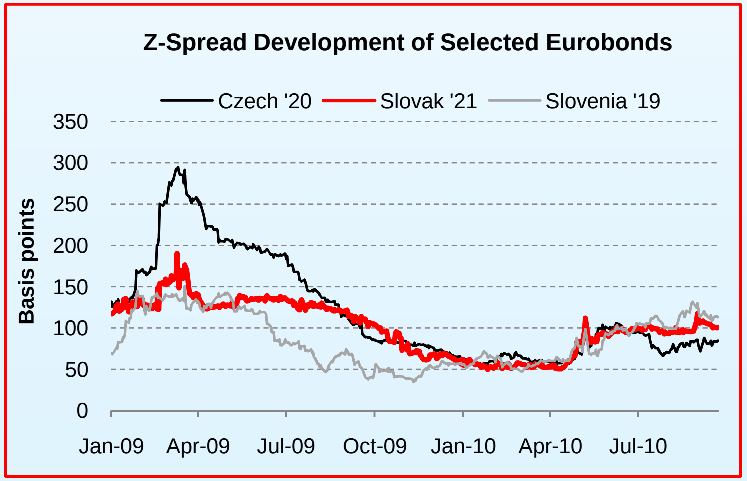


Active Debt and Liquidity Management

- **Well-developed domestic financial market**
  - Almost 65 % of outstanding state debt covered by domestic market (as of December 2010)
  - Stable financial system
- **Stable, low interest rate environment**
  - Significant decrease in benchmark yields over the last decade
  - Narrow trading spread to Bund interest rate levels
- **Limited reliance on international markets**
  - Foreign debt currently approximately 35% of total state debt (as of December 2010)
- **Solid trading performance of outstanding Slovak Eurobonds**



Source: Bloomberg



Source: Bloomberg

Debt Portfolio and Outlook to Year 2011

- Weighted average interest rate of bonds portfolio is 3.76 % p.a.
- Weighted average interest rate of whole debt portfolio is 3.3 % p.a.
- All benchmark parameters of debt portfolio in line with Debt Management Strategy
- State budget deficit for year 2011 is planned on EUR 3.8 billion
- Public deficit for year 2011 is planned below 4.9 % of GDP
- Public deficits for 2012 and 2013 is planned to be 3.8 % of GDP and 2.9 % of GDP respectively
- 2011 gross borrowing amount can reach EUR 8.5 billion slightly lower then EUR 9.4 billion in 2010
- Partly financed via syndicated bonds issuance – 3 lines in whole amount up to EUR 4 billion
- Partly financed via bonds auctions – amount up to EUR 4 billion
- Rest will be covered by T-Bills issuance

Issuance Plans and Intention for Year 2011

Gross borrowing amount EUR 8.5 bln in 2011

- Up to EUR 4 bln via syndication
  - EUR 1.25 bln on 5 year maturity - already done with spread to ASW 80 bp
  - EUR 1 bln tap on 9 year maturity in spring
  - EUR 1-2 bln new line opening in autumn
- Up to EUR 4 bln via auctions

Line	Residual tenor [Years]	Amount available [EUR]	Issue max. size [EUR]	Coupon [% p.a.]	Notice
206	15	0.27 bln	1.327 bln	4.50	Old SK bond
216	14	0.80 bln	3.000 bln	4.35	SK benchmark 15
213	5	0.47 bln	3.000 bln	3.50	SK benchmark 5
214	9	1.27 bln	3.000 bln	4.00	SK benchmark 10
215	2	0.65 bln	1.500 bln	6M EURIBOR	Float
217	3	1.50 bln	1.500 bln	0.00	Zero coupon
218	?	3.00 bln	3.000 bln	?	New SK benchmark

- Rest via T-Bills

Disclaimer

This document shall not constitute an offer to sell, or the solicitation of an offer to buy any securities described herein. This document is not for distribution in, nor does it constitute an offer of securities in, the United States, Canada, Australia, Japan or any other jurisdiction. Neither the presentation nor any copy of it may be taken or transmitted into the United States, its territories or possessions, or distributed, directly or indirectly, in the United States, its territories or possessions or to any US person as defined in Regulation S under the US Securities Act 1933, as amended (the “Securities Act”). Any failure to comply with this restriction may constitute a violation of United States securities law. Accordingly, each person viewing this document will be deemed to have represented that it is not a U.S. person within the meaning of Reg S of the Securities Act. Securities may not be offered or sold in the United States absent registration or an exemption from registration. The Issuer has not registered and does not intend to register any securities that may be described herein in the United States or to conduct a public offering of any securities in the United States. The communication of this document as a financial promotion is only being made to those persons falling within Article 12, Article 19(5) or Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or to other persons to whom this document may otherwise be distributed without contravention of section 21 of the Financial Services and Markets Act 2000, or any person to whom it may otherwise lawfully be made. This communication is being directed only at persons having professional experience in matters relating to investments and any investment or investment activity to which this communication relates will be engaged in only with such persons. No other person should rely on it. This document is not for distribution to retail customers.

NO ACTION HAS BEEN MADE OR WILL BE TAKEN THAT WOULD PERMIT A PUBLIC OFFERING OF ANY SECURITIES DESCRIBED HEREIN IN ANY JURISDICTION IN WHICH ACTION FOR THAT PURPOSE IS REQUIRED. NO OFFERS, SALES, RESALES OR DELIVERY OF ANY SECURITIES DESCRIBED HEREIN OR DISTRIBUTION OF ANY OFFERING MATERIAL RELATING TO ANY SUCH SECURITIES MAY BE MADE IN OR FROM ANY JURISDICTION EXCEPT IN CIRCUMSTANCES WHICH WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS.THIS DOCUMENT DOES NOT DISCLOSE ALL THE RISKS AND OTHER SIGNIFICANT ISSUES RELATED TO AN INVESTMENT IN THE SECURITIES/TRANSACTION. PRIOR TO TRANSACTING, POTENTIAL INVESTORS SHOULD ENSURE THAT THEY FULLY UNDERSTAND THE TERMS OF THE SECURITIES/TRANSACTION AND ANY APPLICABLE RISKS. THIS DOCUMENT IS NOT A PROSPECTUS FOR ANY SECURITIES DESCRIBED HEREIN AND NO PROSPECTUS HAS BEEN OR WILL BE PREPARED AND APPROVED BY RELEVANT AUTHORITIES IN RESPECT OF THE SECURITIES DESCRIBED HEREIN IN ANY JURISDICTION. INVESTORS SHOULD ONLY SUBSCRIBE FOR ANY TRANSFERABLE SECURITIES DESCRIBED HEREIN ON THE BASIS OF INFORMATION IN THE RELEVANT OFFERING CIRCULAR AND TERMS AND CONDITIONS, AND NOT ON THE BASIS OF ANY INFORMATION PROVIDED HEREIN.